Thrift Savings Plan

TSP Loan Program

January 2002

Federal Retirement
Thrift Investment Board

To help make your loan request go smoothly:

- ❑ If your address has recently changed, notify your agency or service before you begin the loan application process. Make sure your address in your TSP account record is correct before you send in your request.
- ❑ Apply only if you have at least $1,000 of your own contributions and attributable earnings in your civilian or uniformed services TSP account.
- ❑ Estimate the maximum loan for which you are eligible by visiting the TSP Web site at www.tsp.gov or by calling the ThriftLine at (504) 255-8777. You may also use the worksheet in Appendix 3.
- ❑ To check on the status of your loan application, visit the TSP Web site or call the ThriftLine.
- ❑ Keep copies of any documents or forms that you submit to the TSP Service Office.

To avoid problems with your loan:

- ❑ Check your earnings and leave statements to make sure your loan payments are being deducted in the correct amount every pay period.
- ❑ Review the information on your quarterly loan statement.
- ❑ If you receive a notice from the TSP Service Office indicating a problem with your loan payments, act quickly to get the problem corrected.

Table of Contents

The Thrift Savings Plan Loan Program

This booklet explains the features of the Thrift Savings Plan (TSP) Loan Program, how it works, and your responsibilities when you borrow from your civilian or uniformed services TSP account.

If after reading this booklet you have questions about the loan program which your agency or service cannot answer, you can contact the TSP Service Office Monday through Friday, 7:00 a.m. to 4:30 p.m. central time, by calling the ThriftLine at (504) 255-8777 (TDD: (504) 255-5113) and selecting the option on the ThriftLine menu to speak to a participant service representative. You can also write to the TSP Service Office at:

TSP Service Office
National Finance Center
P.O. Box 61500
New Orleans, LA 70161-1500

The following sources of TSP information are available 24 hours a day, 7 days a week:

TSP Web site: www.tsp.gov

The TSP Web site provides general information, forms and publications, and a loan calculator to estimate loan payments. In addition, you can access your account to determine the amount available for you to borrow, check on the status of your loan application, or find out your outstanding loan balance and get prepayment information.

ThriftLine: (504) 255-8777

On the ThriftLine, you can check on the status of your loan application or obtain the amount available for you to borrow and the current loan interest rate.

You will need your Social Security number and your TSP Personal Identification Number (PIN) in order to access your personal account information on either the TSP Web site or the ThriftLine. If you have forgotten your PIN, you can request a new one from the Web site, the ThriftLine, or the TSP Service Office.

I. Eligibility for a TSP Loan

TSP participants can borrow from their own accounts while they are employed as Federal civilian employees or are serving as members of the uniformed services.

You can apply for a loan if:

- ❑ you are a current employee or service member (separated and retired TSP participants are not eligible), and
- ❑ you are in pay status (loans are repaid through payroll allotments), and
- ❑ you have *at least $1,000* of your own contributions and their earnings in your civilian or uniformed services TSP account.

You can borrow from your TSP account even if you have stopped contributing your own money.

Participants who are both Federal civilian employees and members of the uniformed services (for example, as members of the Ready Reserve) may have a TSP account related to each type of employment and thus will have two separate accounts. The eligibility requirements stated above apply to the account from which you intend to borrow.

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II. The Effect of a Loan on Your TSP Account

How does the money come out of my account?

When you borrow from your TSP account, your account balance is decreased by the amount of your loan. If your account is invested in more than one fund, your loan is deducted *pro rata* from the employee contributions (and earnings on those contributions) that you have in each fund. For example, if you have employee contributions and attributable earnings of $20,000, which include $12,000 in the Common Stock Index Investment (C) Fund and $8,000 in the Government Securities Investment (G) Fund, your loan request of $2,000 would be funded by $1,200 from the C Fund and $800 from the G Fund.

How does the money go back into my account?

Loan payments, including principal and interest, are deducted by your agency or service from your pay each pay period until the loan is repaid in full. As you repay the loan, your loan payments will be invested in the various investment funds in your account according to your most recent contribution allocation. For example, if you have chosen to allocate 60 percent of your TSP payroll contribution to the C Fund and 40 percent to the G Fund, and if your loan payment is $100 per pay period, $60 of your loan payment would be invested in the C Fund, and $40 would be invested in the G Fund. If you change your contribution allocation, the allocation of your loan payments will also change.

How does a loan affect my final account balance?

Although funds are being restored to your account when your loan payments are posted, borrowing from your account will affect the final account balance available for your retirement.

The five TSP investment funds have different rates of return. Because of the difference between the interest you pay on your loan (that is, the G Fund rate at the time your application was received) and the rates of return in the five investment funds over the life of the loan, the earnings in your account when your loan is fully repaid are likely to be different from what your earnings would have been if you had not taken the loan.

Therefore, even though you pay back your loan with interest, *you may have less money in your account at retirement* than if you had not borrowed from it.

So, first determine whether you really need to borrow at all. If you must borrow, you should compare the costs of borrowing from your TSP account to the costs of borrowing from other sources, such as a bank or mortgage company. See Appendix 1, The Cost of TSP Loans, for an explanation and examples of how to make this comparison. It is *not* enough simply to compare loan interest rates. The cost of borrowing from your TSP account is the difference between your net earnings when you borrow from a bank (or other lending source) and your net earnings when you borrow from your TSP account. When you make the comparison correctly, you may find that it is less costly to borrow elsewhere than from your TSP account.

Taking a TSP loan can also affect your account if you are unable to make your loan payments on a regular basis, for example, if you are a member of the Ready Reserve or a civilian on an intermittent pay schedule. Missed loan payments may have serious tax consequences or may require that you repay your loan in full. (See Section V, Repaying a Loan.)

If you are a civilian TSP participant in a nonpay status or you are a member of the uniformed services who is not currently receiving pay (generally a possibility only for members of the Ready Reserve), you are not eligible for a TSP loan. However, you may be eligible for an in-service withdrawal if you are over age 59½ or you can demonstrate financial hardship. Read the booklet *TSP In-Service Withdrawals*, available from the TSP Web site, your agency or service, or the TSP Service Office.

III. Rules for Borrowing

For what purposes can I get a loan?

There are two types of loans:

- ❑ A **general purpose loan**, which does not require you to document or specify the purpose of your loan.
- ❑ A **residential loan**, which is only for the purchase or construction of your primary residence.

  For a residential loan, your residence can be a house, condominium, shares in a cooperative housing corporation, or a townhouse, boat, mobile home, or recreational vehicle, but it must be used as your primary residence. Your primary residence must be purchased (in whole or in part) by you. You may obtain a residential loan for constructing a new residence or purchasing an existing residence, but **not** for refinancing or prepaying an existing mortgage, for renovations, for buying out another person's share in your current residence, or for the purchase of land only.

  The amount that you request for a residential loan must be documented, as described in Appendix 2. If you have expenses related to your residence which do not qualify as a purchase or construction of your primary residence, you may finance them with a general purpose loan.

You are not required to put up property or security (collateral) for your loan.

How much can I borrow?

You may borrow only from your own contributions and their earnings. You can learn the amount you have available to borrow by accessing your account on the TSP Web site (www.tsp.gov), by calling the ThriftLine at (504) 255-8777, or by completing the worksheet in Appendix 3.

Minimum loan amount. The smallest amount you can borrow is $1,000. Therefore, you must have at least $1,000 of your own contributions and attributable earnings in the account from which you take the loan.

Maximum loan amount. The Federal Employees' Retirement System Act (FERSA) of 1986 and the Internal Revenue Code limit the amount you can borrow:

- ❑ You can never borrow more from your civilian account or from your uniformed services account than the amount of your own contributions and their earnings in that account.
- ❑ If you have not had a TSP loan outstanding during the past year and your total TSP contributions and their earnings are $10,000 or less, you can borrow up to the full amount of your contributions and earnings; **or**

  If you have had a TSP loan outstanding during the past year, or if your total TSP contributions and their earnings are greater than $10,000, the maximum amount you can borrow is affected. Access the TSP Web site, call the ThriftLine, or use the worksheet in Appendix 3 to estimate it.
- ❑ You cannot borrow more than $50,000.

Appendix 3 provides more information on these limits. (If you have both a civilian and uniformed services account, the maximum loan amount available for you to borrow will be based on calculations that consider the account balances and outstanding loan balances for both accounts.)

What is the interest rate on a TSP loan?

The loan interest rate you pay for the life of the loan is the latest available interest rate for the G Fund at the time your application is received.

Note: The loan interest rate will remain fixed for the life of the loan with one exception. If the loan is from your civilian account and you have a period of missed payments because you were called to active military duty subject to the Soldiers' and Sailors' Civil Relief Act of 1940 (50 U.S.C. app. § 526), you may elect to adjust the interest rate on your TSP loan to 6% for the period of your military duty. Notify the TSP Service Office to do so.

How long do I have to repay my loan?

You may choose the amount of time you want to repay the loan, within limits. The loan repayment period must be at least one year. You may choose a period between 1 and 4 years to repay a general purpose loan and between 1 and 15 years to repay a residential loan.

If you would like to estimate the amount of your loan payment, see Appendix 4 or use the loan calculator on the TSP Web site.

Can I get a loan if I am not currently receiving pay?

No. When a loan is issued, payroll allotments to repay your TSP loan are established by your Federal civilian or uniformed services payroll office. Therefore, if you are not currently receiving pay, you will not be able to apply for a TSP loan. The TSP refers to this status as "nonpay." For civilian TSP participants, this includes leave without pay, furlough, etc. Most uniformed services members will never be in a nonpay status. However, members of the Ready Reserve whose drilling intervals are irregular (i.e., other than monthly) and therefore do not receive pay each month are considered, for TSP purposes, to be in a nonpay status during the months they do not drill. When you return to pay status, you may apply for a TSP loan.

However, if you are on approved leave without pay to work full time for an employee organization under which your TSP contributions may continue, or if you are on an Intergovernmental Personnel Act (IPA) assignment, you are eligible to apply for a TSP loan. Call or write the TSP Service Office for more information.

How many loans can I have from my civilian or uniformed services TSP account at one time?

You may have two loans outstanding from a TSP account at any one time. You may have two general purpose loans or one general purpose and one residential loan. You may not have two residential loans.

Do not submit two applications simultaneously; only one application can be processed at a time.

If you have both a civilian and a uniformed services account, you may have two outstanding loans from each account, subject to the same rules and limitations specified in this booklet.

Do my spouse's rights affect my loan?

Yes. The law provides certain rights to spouses of TSP participants. When you request a TSP loan, you must indicate whether you are married, even if you are separated from your spouse.

If you are a FERS participant or a member of the uniformed services and you are married, your spouse must consent to your TSP loan by signing the Loan Agreement that the TSP Service Office will send you. *If you are a married CSRS participant,* the TSP must notify your spouse when you apply for a loan.*

Under certain circumstances, exceptions may be made. If your spouse's whereabouts are unknown, or if exceptional circumstances (applicable to FERS and uniformed services only) make it inappropriate to obtain your spouse's signature, you can apply for an exception by submitting Form TSP-16 (for civilians) or Form TSP-U-16 (for members of the uniformed services), Exception to Spousal Requirements. **The criteria for supporting a claim on the basis of exceptional circumstances are strict. The fact that there is a separation agreement, a prenuptial agreement, a protective order, or a divorce petition does not in itself support a claim of exceptional circumstances.**

For more information on establishing an exception to the spouses' rights requirements, refer to Form TSP-16 or Form TSP-U-16, available from the TSP Web site, your agency or service, or the TSP Service Office.

The TSP will pursue, and refer to the Department of Justice for prosecution, any person who attempts to deprive a spouse of his or her TSP rights by forging the spouse's signature, by lying about the participant's marital status, or by similar fraudulent actions.

* FERS refers to the Federal Employees' Retirement System, the Foreign Service Pension System, and other equivalent Government retirement plans. CSRS refers to the Civil Service Retirement System, including CSRS Offset, the Foreign Service Retirement and Disability System, and other equivalent Government retirement plans. For TSP purposes, the uniformed services includes members of the Army, Navy, Air Force, Marine Corps, Coast Guard, Public Health Service, and the National Oceanic and Atmospheric Administration, as well as members of the Ready Reserve, including the National Guard. If you are not sure of your retirement coverage, contact your personnel office.

If there is a court order against my account, will I be able to get a loan?

No. The TSP must honor certain orders, such as those that enforce payment of child support or alimony or that award a portion of your account to a former spouse. When the TSP receives a court order, a hold is placed on your account. A pending loan cannot be approved and disbursed until the court order process has been completed.

If you have both a civilian and a uniformed services account, the court order must clearly identify the account to which the order/award applies.

For more information about court orders, read the booklet *Court Orders and the TSP*, available from the TSP Web site, your agency or service, or the TSP Service Office.

IV. Applying for a Loan

How do I apply for a loan?

Use the Loan Application (Form TSP-20 for civilian accounts; Form TSP-U-20 for uniformed services accounts) available on the TSP Web site at www.tsp.gov or from your agency or service. If you have two TSP accounts, your application applies only to the account to which your form refers.

You can learn the amount available for you to borrow, as well as the current loan interest rate, by visiting the TSP Web site or by calling the ThriftLine.

When you have completed the form, mail it to the TSP Service Office at the address on the form. Do *not* send your application to your agency or service; only the TSP Service Office can process a TSP loan.

What information do I need to request a loan?

You will need to indicate on your Loan Application:

- ❑ the amount you wish to borrow
- ❑ the type of loan — either general purpose or residential
- ❑ the length of time you want to repay the loan
- ❑ your pay schedule, for civilian accounts — weekly, biweekly, semimonthly, or monthly. (All loan payment allotments for members of the uniformed services will be based on a monthly pay schedule.)
- ❑ your marital status
- ❑ if married (even if separated), information about your spouse, including your spouse's name, Social Security number, and if you are covered by CSRS, your spouse's address.

What additional information is needed to complete my loan request?

If you are eligible for a loan, the TSP Service Office will send you a loan package that includes:

- ❑ Your Loan Agreement/Promissory Note (Form TSP-21 for civilians; Form TSP-U-21 for uniformed services)

- ❑ Your Loan Payment Allotment Form (Form TSP-22 for civilians; Form TSP-U-22 for uniformed services)
- ❑ For residential loans, your Residential Loan Documentation Form (Form TSP-21-R for civilians; Form TSP-U-21-R for uniformed services).

The Loan Agreement/Promissory Note shows your loan account number and the terms of your loan. The loan terms include the amount of the loan, the interest rate, the amount of interest you will pay on your loan, the loan repayment period, the number of payments, and the amount of each payment. The Loan Agreement is also the promissory note; your signature on that document obligates you to repay the loan according to its terms.

The Loan Payment Allotment Form shows the amount of each loan payment to be deducted from your pay. Your signature authorizes your employing agency or service to make these deductions.

The Residential Loan Documentation Form provides instructions for documenting costs associated with the purchase or construction of a primary residence.

Exception to Spousal Requirements (Form TSP-16 for civilians; Form TSP-U-16 for uniformed services) is required only for a married participant who does not know the whereabouts of his or her spouse or, in the case of a FERS participant or a member of the uniformed services, one who is unable to obtain the spouse's signature due to exceptional circumstances.

How do I complete the loan package?

It is extremely important that you review the terms of your loan as shown on the Loan Agreement/Promissory Note. Do not alter any of the preprinted information on it. If you agree with all of the terms of the loan:

- ❑ Sign the Loan Agreement/Promissory Note.
- ❑ If you are a married FERS participant or a member of the uniformed services, have your spouse sign the Loan Agreement also (or attach the Exception to Spousal Requirements, if necessary).
- ❑ Sign the Loan Payment Allotment Form.

- ❑ If you requested a residential loan, complete the Residential Loan Documentation Form. You must provide copies of the purchase contract, settlement sheet, or other documents to show the cost of the residence. (Appendix 2 describes the documentation requirements.) Do *not* send original supporting documents; they will not be returned to you.

Your Loan Agreement will expire 45 days after the date on the Loan Agreement/Promissory Note. The TSP Service Office must receive your completed loan package by this date or your loan request will be cancelled. If your loan package is not complete when you send it, the entire package will be returned to you. This may delay your loan or cause your request to be cancelled.

When you sign your Loan Agreement/Promissory Note, you are acknowledging that you have read the form and that you promise to repay the loan according to its terms. You are also certifying under penalty of fine or imprisonment that the information in the Loan Agreement/Promissory Note, including all attachments and any documentation, is true and complete.

What if I do not accept the terms of the Loan Agreement?

If you do not want a loan under the terms shown on your Loan Agreement (e.g., you want a loan for a different amount, you want to repay the loan over a different time period or with a different payment amount, or your pay cycle is not correct on the Loan Agreement), you must first cancel your loan request and then reapply. (Do not alter the preprinted information on the Loan Agreement. The TSP Service Office cannot process an altered Loan Agreement.)

You may complete the cancellation information on the Loan Agreement and return it to the TSP Service Office by the expiration date.

If you want to apply for a loan with different terms, send a new Loan Application when you return your cancelled Loan Agreement.

Only one loan request can be processed at a time. Therefore, if you apply for another loan (that is, for a different purpose, amount, or time period) before an earlier Loan Agreement expires, or if you have not checked the cancellation block on the earlier Loan Agreement and returned it to the TSP Service Office, your second Loan Application will be rejected. You may visit the TSP Web site or call the ThriftLine to confirm that the prior request has been cancelled or has expired.

What happens after I return the loan package?

The TSP Service Office will review your loan package and, for residential loans, your supporting documentation (see Appendix 2). The Residential Loan Documentation Form contains a release permitting the TSP Service Office to contact your mortgage company or contractor to verify your documentation.

If your loan is approved, it will be scheduled for disbursement in the next monthly processing cycle. At the time of disbursement, the record keeper will send your loan payment allotment information to your payroll office, which authorizes your loan payments to begin. Your check will be sent directly to you at your current address of record for the TSP. (See address information on page 14.)

You will also receive a package containing important documents regarding your loan, including your Loan Payment Schedule. *Keep these documents.* You may need to refer to them later.

After I agree to the loan terms, will I receive the amount I agreed to?

At the loan disbursement date, the TSP record keeper repeats the test that determines the maximum amount you may borrow (maximum loan amount). (See Appendix 3.) If a negative adjustment has been made to your account or you have experienced losses in the F, C, S, or I Funds, the maximum loan amount may be less than the amount shown on your Loan Agreement. However, if the amount available for you to borrow is at least $1,000, your loan will be disbursed in the newly calculated maximum amount, but later in the month (generally within two weeks of the original scheduled disbursement date). The interest rate and the amount of each loan payment will not change, but the repayment period may be shorter than you requested.

How long will it take from the time I apply until I receive my check?

You should anticipate that there will be *4 to 5 weeks* between the time you submit your Loan Application and the time a check is mailed to you.

The TSP is a monthly valued plan; therefore, loans are disbursed once a month (early in the month) after earnings have been posted. The month in which your loan is disbursed depends on when the

TSP Service Office receives *all* the completed and signed materials necessary to approve your loan and schedule it for disbursement. Your loan must be approved by the last business day of the month in order to be paid the following month.

To keep the process from being delayed:

- ❑ Make sure that you have completed and signed all the forms.
- ❑ Verify that the information on each form is correct.
- ❑ Submit copies of all required documentation for residential loans.
- ❑ If your address changes, notify your agency or service *immediately*, because only your agency or service can update your address of record for your TSP account. You *cannot* change your address in the TSP database by marking up the Loan Agreement. Although the Loan Agreement/Promissory Note will be sent to the address you provide on your Loan Application, your loan check will be sent to the address of record for your TSP account, which is the address provided by your agency or service. *If your address is not correct, your loan check may not reach you* and you may not receive other TSP correspondence. Correspondence concerning your loan after it is issued (for example, your quarterly loan statements) will also be sent to your address of record.

V. Repaying a Loan

How do I make loan payments?

You must make loan payments through payroll allotments. Personal checks cannot be accepted as payments on the loan.

When your loan is disbursed, the TSP Service Office will notify your payroll office to begin deducting loan payments from your salary each pay period and submitting them to the TSP record keeper. When the TSP receives each loan payment, it is credited to your account and invested in the same proportion as your most recent contribution allocation. For example, if your most recent payroll contribution allocates 50% to the G Fund, 25% to the C Fund, and 25% to the S Fund, your $200 loan payment would invest $100 in the G Fund, $50 in the C Fund, and $50 in the S Fund.

Note: Making loan payments through payroll allotments may pose special problems for some members of the Ready Reserve or civilians with intermittent pay schedules. If the employee or member is not paid on a regular basis, loan payments will be late or missed altogether. This may result in a taxable loan distribution, which may be further subject to an early withdrawal penalty tax. (See Section VI.) For this reason, members of the Ready Reserve whose drilling intervals are irregular (i.e., other than monthly) and civilians with intermittent pay schedules should consult with their agencies or services before taking a loan from their TSP accounts.

The TSP will report your loan transactions on your quarterly loan statement.

How can I avoid loan repayment problems?

- ❑ If you are a civilian employee, be sure you provide your correct pay period (typically, biweekly) on your Loan Application. Then, review the terms on your Loan Agreement and be sure that the frequency of payments is correct.
- ❑ If you identify a problem with the Loan Agreement, you should cancel that loan and reapply.
- ❑ After your loan is disbursed, check your earnings and leave statement to be sure loan payments have started and are in the correct amount. If your payroll office makes loan payments only

in whole dollars, your loan payments should be *rounded up* to the nearest dollar.

- ❑ If your allotment does not start in the first full pay period after you receive your loan, notify your agency or service. If you need assistance, call the ThriftLine and speak to a participant service representative.
- ❑ Check the loan information on your quarterly statement to make sure no errors are being made.
- ❑ If you receive a notice from the TSP Service Office indicating a problem with your loan payments, act quickly. Contact your payroll office immediately and follow up until the problem is corrected.
- ❑ If you receive a reamortization package, complete and return it promptly to the TSP Service Office (even if your loan payments have resumed). Once you receive confirmation that the reamortization has been processed, work with your payroll office to ensure that the correct reamortized loan payment is submitted. If you do not reamortize your loan, you will be required to repay your loan in full or a taxable distribution will be declared. (See Section VI.)
- ❑ If your employment status changes or if you change payroll offices, follow up with your agency or service and the TSP to ensure that payments are continued properly.
- ❑ If payments continue to be deducted after you have been notified that your loan was paid in full, contact your payroll office immediately.

Can I suspend my loan payments?

No. When you agreed to the loan terms, you agreed to repay the loan in full and you authorized payroll allotments. However, if you are experiencing financial difficulties, you may be able to reamortize your loan to reduce your payment amount. If you are a civilian TSP participant who enters nonpay status or you are a member of the uniformed services who is not receiving pay (generally a possibility only for members of the Ready Reserve), see “What happens to my loan payments if I go into nonpay status?” on page 18.

Can I make additional payments to repay my loan?

No, you cannot make additional loan payments. Payments are made only through payroll allotments.

Can I prepay my entire loan?

Yes, but you must pay the full amount; no partial payments are accepted. Payments that you make directly must be made by cashier's check, money order, certified check (i.e., a check certified by the financial institution on which it is drawn), or a cashier's draft or treasurer's check from a credit union. *Personal checks will not be accepted.* Checks must be made payable to the Thrift Savings Plan and must include your loan number and Social Security number.

You can prepay your loan in full at any time without penalty. Access the TSP Web site or call the TSP Service Office to obtain the prepayment amount. This amount will be valid until the earlier of 20 days or a pending taxable distribution date, if any, and will include all unpaid principal and interest.

Can I change the repayment period or the payments on my loan?

Yes. You may request a reamortization of your loan once during the life of the loan. For example:

- ❑ you may want to increase your payment amount and repay the loan more quickly than you had originally agreed to; or
- ❑ you may want to decrease the amount of each payment and extend the time period for repaying your loan.

However, the rules for minimum and maximum repayment periods still apply. (See page 6.)

If you want to reamortize your loan, contact the TSP Service Office. You will receive a Rider to the Loan Agreement/Promissory Note (Form TSP-21-Rider for civilians; Form TSP-U-21-Rider for uniformed services) which specifies your new loan payment terms. You will also receive a new Loan Payment Allotment Form (Form TSP-22-R for civilians; Form TSP-U-22-R for uniformed services).

There are circumstances under which you *must* reamortize your loan, for example, if you have missed payments or payments have been made in an incorrect amount. (See the discussion on pages 18 – 22 concerning missed or incorrect loan payments.)

What happens if my payroll office changes?

When you change payroll offices — for example, when you transfer from one civilian agency to another, from one component of the uniformed services to another, or from active status to ready reserve status — you must inform your new agency or service that you have a TSP loan and instruct it to continue your TSP loan payments. If your new payroll office does not begin your allotments promptly, loan payments will be missed, with possible significant adverse tax consequences to you. Check your earnings and leave statements and your loan statements to make sure your payments are current and correct. (See below and pages 19 – 22 concerning missed or incorrect loan payments.)

If you are a civilian employee and there is a change in your pay schedule(for example, from biweekly to monthly), your loan payments will have to be recalculated. As soon as you know what your new pay schedule will be, you must notify the TSP Service Office. Call the ThriftLine and speak to a participant service representative. The TSP Service Office will send you a reamortization package based on your new pay schedule.

What happens to my loan payments if I go into nonpay status?*

Because TSP loan payments are made only through payroll allotments, a period without pay will result in missed payments.

If you go into an approved nonpay status, loan payments can be suspended for the nonpay period, but only up to one year due to Internal Revenue Service (IRS) requirements. (A special rule applies to those who go into nonpay status to perform military service. (See page 20.))

You or your agency must submit documentation of your nonpay status.

Civilian nonpay documentation consists of:

- ❑ Form TSP-41, Notification of Nonpay Status; or
- ❑ Form SF-50, Notification of Personnel Action, documenting your nonpay status; or

* See page 7, "Can I get a loan if I am not receiving pay?" for the TSP's definition of nonpay status for civilian and uniformed services TSP participants.

- ❑ Letter from your agency on agency letterhead including your name, date of birth, and Social Security number; the beginning date of the nonpay status; the anticipated ending date of the nonpay status, if known; and the signature and title of the agency representative providing the information.

For **members of the uniformed services** who go into nonpay status (generally members of the Ready Reserve whose drilling intervals are irregular), nonpay documentation consists of:

- ❑ Form TSP-U-41, Notification of Nonpay Status; or
- ❑ Letter from your service signed by an appropriate official (e.g., your commander or adjutant) and containing your name, date of birth, and Social Security number; the beginning date of the nonpay status; the anticipated ending date of the nonpay status, if known; and the signature and title of the service representative providing the information.

If you are in approved nonpay status but you (or your agency or service) do not provide the required information, you may have adverse tax consequences.

If you are in nonpay status and no payments are made for a year, you must repay your loan in full by the end of the year of nonpay status or be liable for income tax on the outstanding balance of your loan.

If you are on approved leave without pay to work full time for an employee organization under which your TSP contributions may continue, or if you are on an Intergovernmental Personnel Act (IPA) assignment, your loan payments must continue. Contact the TSP Service Office for instructions.

Note: Although the TSP will allow you to miss payments when you are in an approved nonpay status, you still must repay your loan within the required time frames of 5 years for general purpose loans and 18 years for residential loans. Unless you repay your loan in full by the required deadline, the TSP must close your loan by declaring a taxable distribution of the outstanding balance of the loan. (See Section VI.)

What happens to my loan payments if I am a civilian TSP participant and go into nonpay status to perform military service?

If you enter nonpay status to perform military service, you will be permitted to suspend payments on your loan until you return to pay status. Although loan payments will not be due before then, interest will continue to accrue for the entire period. (You cannot repay your civilian TSP loan by making loan allotments from your uniformed services pay.)

The maximum time limits for repayments (5 years for general purpose loans or 18 years for residential loans) will be extended by the length of your military service.

In order for these rules to apply, you or your agency must notify the TSP Service Office with the beginning date of your military service. Acceptable documentation showing that you entered nonpay status to perform military service includes:

- ❑ Form TSP-41, Notification of Nonpay Status, indicating that your nonpay status is due to military service; or
- ❑ Form SF-50, Notification of Personnel Action, if it documents your entry into nonpay status to perform military service, or if it is accompanied by your military orders; or
- ❑ Letter from your agency on agency letterhead, including your name, date of birth, and Social Security number, the beginning date of the nonpay status, anticipated ending date, if known, a statement that you entered nonpay status to perform military service, and the signature and title of the agency representative providing the information.

If you (or your agency) do not provide the beginning date of your military service, the suspension in loan payments cannot exceed the one-year period discussed on pages 18 – 19.

When your military service ends, you or your agency must notify the TSP Service Office of your military service ending date.

What happens to my loan if I am a civilian TSP participant and separate to perform military service?

If you separate from civilian service to perform military service, you will be required to repay your loan in full or the loan will be declared a taxable distribution. However, you may be eligible to reinstate your loan when you return to Federal civilian service. (See page 25.)

What should I do if my agency makes a mistake in my loan payments?

Sometimes an agency or service may not start payments promptly or in the correct amount after a loan is issued, or may not submit the correct payment amount if there are two loans outstanding. As soon as you identify an error or missed payment on your earnings and leave statement, contact your agency or service to make a correction. You may also ask the TSP Service Office to assist your agency or service in making the necessary corrections. However, *you are responsible for ensuring that correct loan payments are submitted on time.*

What happens when loan repayment problems are not fixed?

The consequences depend on whether the period of missed or incorrect payments is 90 days or less, or more than 90 days, as described below.

90 days or less. If the period of missed or incorrect payments is 90 days or less, reamortization will not be required. However, you should request a reamortization if the missed or incorrect payments will result in the loan's not being repaid within 5 years of the loan issue date for a general purpose loan and within 18 years of the loan issue date for a residential loan. (The loan issue date is printed on your quarterly loan statement.)

More than 90 days. If the period of missed or incorrect payments is more than 90 days, the loan must be reamortized. Even if payments resume after 90 days, you are still required to reamortize your loan. If the loan is not reamortized, you must repay it in full or a taxable distribution will be declared. (See Section VI, Taxable Loan Distributions.)

- ❑ **Reamortizing your loan.** When reamortization is required, interest on the unpaid amount for the entire period will be added to the outstanding principal balance of the loan, and your loan payments will be recalculated based on a new balance. When a loan is reamortized, there is no change in the loan interest rate.
- ❑ **Repaying in full.** You can obtain your outstanding loan balance and your prepayment amount from the TSP Web site or

from the TSP Service Office. This amount will include all unpaid principal and interest. You must pay the full amount; no partial payments are accepted. Your payment must be made by certified check, cashier's check, cashier's draft or treasurer's check from a credit union, or money order.

What happens if I leave Federal civilian service or the uniformed services?

If you separate from civilian employment or the uniformed services, you must repay your loan in full, including interest. When your agency or service reports that you have separated, you will be sent a notice with instructions to repay your loan within 90 days.

If the TSP Service Office does not receive your repayment in full by the required date, the outstanding balance of your loan and any unpaid interest will be reported to the IRS as a taxable distribution. (See Section VI.)

An outstanding loan may delay the processing of a withdrawal from your TSP account if you have requested one.

Note: If you have both a civilian and a uniformed services TSP account and you wish to combine them when you separate, you must repay any outstanding loans in full in the account you will be closing before the two accounts can be combined.

What happens to my loan if I die?

The outstanding loan balance plus any unpaid interest is reported as a taxable distribution to your estate. (See Section VI, Taxable Loan Distributions.) The distribution is not subject to an early withdrawal penalty tax. *Neither your estate nor anyone else may repay your loan.*

VI. Taxable Loan Distributions

What is a taxable distribution?

When a loan is not repaid in full by the established deadline, the amount of the unpaid principal and interest must be reported to the IRS as a "taxable distribution." When a taxable distribution is declared, you will not receive any additional money; the taxable distribution simply accounts for the portion of your outstanding loan balance which you did not repay to your TSP account.

Note: If you have a uniformed services account and that account includes contributions from combat zone pay (which is tax-exempt), there will be no income tax payable on that portion of the distribution that represents contributions from combat pay.

What are the consequences of a taxable distribution?

You will be liable for income taxes on the taxable amount reported to the IRS and, depending upon your age and employment status, you may also be liable for a 10 percent early withdrawal penalty on the taxable amount. The TSP Service Office will send you the appropriate tax form by January 31 of the year following the year the distribution is declared.

If you are eligible for the Saver's Tax Credit, as provided in I.R.C. § 25B, any amount declared by the TSP as a taxable loan distribution within a specified time period must be deducted from the amount for which you are otherwise eligible.

If the taxable loan distribution is declared because you separated from civilian or uniformed service, you may deposit any amount up to the taxable amount of the distribution into an individual retirement account (IRA) or other eligible retirement plan using your personal funds, thereby avoiding current tax (and the early withdrawal penalty tax, if applicable) on that amount.

If you will be withdrawing your account and if a taxable distribution of your loan was declared, you may want to elect additional withholding from your TSP withdrawal or from other payments made to you in the same year to cover the tax you must pay on your taxable loan distribution.

Note: If you are a member of the uniformed services and your account includes tax-exempt contributions, a portion of your loan distribution will be reported as tax-exempt. That amount can also be deposited into an IRA if the IRA will accept it.

You should consult the IRS or a tax advisor for authoritative information and advice if a taxable distribution of your loan is declared.

What are the circumstances under which a taxable distribution is declared?

A taxable distribution of the unpaid principal and any unpaid interest is declared if:

- ❑ you leave civilian employment or the uniformed services without repaying your loan in full within the required time limits, or
- ❑ you are in pay status and have had incorrect or missed payments for more than 90 days, but you do not reamortize or repay your loan in full, or
- ❑ you are in pay status but, because of missed or incorrect payments, neither your current loan payments nor your reamortized loan payments can repay your general purpose loan in full by the 5th anniversary of the loan issue date or your residential loan by the 18th anniversary of the loan issue date, or
- ❑ you are in approved nonpay status and you do not repay your loan in full within 1 year of the date you began your nonpay status,* or
- ❑ you are in approved nonpay status for less than 1 year and have had missed payments for more than 90 days but, when you return to your job, your loan payments do not resume within 1 year of the date you began your nonpay status, or
- ❑ you are expressly required by the court in a chapter 13 bankruptcy action to stop your loan payments, or
- ❑ you die before your loan is repaid in full.

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* An exception to the one-year limit applies to civilian employees called up for active military service. (See page 20.)

How does a taxable distribution affect my TSP account?

If a taxable distribution of your loan is declared, the loan is closed and you can no longer repay it. This means that your final account balance available for your retirement will be less than it otherwise would be. Therefore, if you take a loan from your TSP account, you should check your earnings and leave statement on a regular basis to ensure that your loan payments are being made properly. You should also review your quarterly loan statement for the same purpose. If your agency or service makes an error by not deducting your loan payments or by deducting loan payments in an incorrect amount, it is important that you contact your agency or service immediately and resolve the problem, in order to avoid a taxable distribution.

Can I reverse a taxable distribution caused by separation for military service?

You may be eligible to reverse the taxable distribution when you return to Federal civilian service. Contact the TSP Service Office to determine your eligibility.

If you are eligible, the TSP will reverse the taxable distribution and reinstate the loan so you can resume loan payments, but only if you can repay the loan within the original time limits of the loan plus the period of military service, and if this will result in your having no more than two loans outstanding. If loan payments cannot be reinstated, you will be given an opportunity to repay the loan in full.

Does a taxable distribution affect my eligibility for another loan?

Yes. After a taxable distribution of your loan is declared, you may not apply for another loan from that account within 12 months of the date of the taxable distribution (unless the taxable distribution was declared because you were on approved leave without pay for more than 1 year, or because you were separated from service).

APPENDIX 1. The Cost of TSP Loans

When you borrow from your TSP account, loan payments (including interest) are deducted from your pay and deposited to your TSP account. Although you are restoring funds to your TSP account during the life of the loan, those funds and their earnings may not equal what you would have had if you had not borrowed from your account. Borrowing from your TSP account will affect the final account balance available for your retirement. The following examples illustrate the effects of borrowing.

The Cost of Residential TSP Loans. Let's assume that you need to borrow $10,000 to purchase a home, and that a mortgage loan is available from your bank at 7% for 15 years. The monthly loan payments (principal and interest) would be approximately $90, and, over the life of the loan, you would pay about $6,200 in total interest. But mortgage interest is a tax-deductible expense on your Federal income tax return, and so, if you are in the 28% Federal tax bracket, the effective interest cost of your loan would be reduced to about $4,500.

The $10,000 that remains in your TSP account — because you borrowed from the bank — would continue earning for the next 15 years. Let's assume that $6,000 of your account is invested in the G Fund and $4,000 in the C Fund. Using hypothetical compound annual rates of return of 8% and 15% for the G Fund and C Fund,* respectively, your TSP account would earn approximately $41,600 over 15 years. Therefore, your "net earnings" at the end of 15 years would be $37,100 ($41,600 – $4,500) if you borrow from the bank.

Now, let's suppose you borrow the $10,000 from your TSP account instead of the bank. If you do, you will not have to pay the $90 per month to the bank, but you will also lose much of the $41,600 in earnings you otherwise would have received on your TSP account. Also, the "interest" you pay yourself for a TSP loan is not tax-deductible.

To illustrate: If the TSP loan rate is 6%, you will have to repay approximately $84 per month to your account for 15 years. (As in the above example, assume that your contribution allocation is 60% to the

* These rates of return and all others assumed in this discussion are not intended to be projections of future rates; they are used for illustration only.

G Fund and 40% to the C Fund over the 15-year repayment period, so that your repayments go into the two funds in those proportions.) At the end of 15 years, you will have restored your TSP account balance to $10,000, but — using the same G and C Fund annual rates of return as above — you will have earnings of only about $27,500.

To offset the diminished TSP earnings somewhat, the $6 savings between the monthly bank loan payment and the monthly TSP payment ($90 – $84), if invested at, say, 5% over 15 years, would be worth approximately $1,500 to you — about $1,100 in savings and about $400 in interest (after Federal taxes of 28%). Therefore, your "net earnings" at the end of 15 years would be $29,000 ($27,500 + $1,500) if you borrow from your TSP account.

The difference between your earnings when you borrow from the bank and your earnings when you borrow from your TSP account is $8,100 ($37,100 – $29,000), which is the cost of borrowing from your TSP account.

The Cost of Other TSP Loans. If you need to borrow money for some other purpose, it may be less expensive to borrow from your TSP account than to borrow from commercial sources.

For example, assume your best alternative to borrowing from your TSP account is a 4-year personal bank loan of $10,000 with a 15% interest rate, which would require monthly payments of approximately $278. You would pay approximately $3,300 in interest over 4 years on this loan, which is not tax deductible. Your TSP earnings on the $10,000 that remain in your account ($6,000 invested in the G Fund and $4,000 in the C Fund over the term of the loan at the hypothetical compound annual returns of 8% and 15%, respectively) would be about $5,200 over the 4 years, for "net earnings" of $1,900 ($5,200 – $3,300).

However, if you borrow $10,000 at 6% from your TSP account to be paid back over 4 years, your monthly payments will be about $235. In 4 years, your account will be restored to $10,000, and you will have earnings of approximately $3,900.

In addition, if you invest the $43 difference between the monthly bank loan payment and the monthly TSP payment ($278 – $235) at 5% over 4 years, you would have approximately $2,200 in savings and interest (after Federal tax of 28%). Your "net earnings" after 4 years would therefore be about $6,100 ($3,900 + $2,200).

The difference between your earnings when you borrow from your TSP account and your earnings when you borrow from a bank is $4,200 ($6,100 – $1,900). Thus, upon the assumptions given, it would be less expensive to borrow from your TSP account than from the bank.

Summary. Although the principal and interest you pay back to your TSP account during the life of your loan will restore funds to your TSP account, there are costs of borrowing from yourself as illustrated above. Be sure you understand the financial effects of borrowing before proceeding with your TSP loan.

APPENDIX 2. Requirements for Residential Loan Documentation

You may obtain a residential loan for the purchase or construction of your primary residence. Your residence may be a house, condominium, or cooperative, or a mobile home, recreational vehicle (RV), or boat, but it must be used as your primary residence.

For a house, condominium, or cooperative, the documents must clearly show the cost of the residence to which you want to apply the loan, the full address of the residence, and that you are the purchaser. For a cooperative, the documents must also clearly show that you own shares in a cooperative housing corporation.

The documentation submitted for the purchase of a mobile home or RV as a primary residence must show that you are the purchaser and must include the sales price, serial number or other identifying number, and address where the vehicle will be located. If the vehicle you are purchasing is an RV, you must also provide a complete description of the vehicle's facilities and accommodations and a signed statement indicating that it will be your primary residence.

The documentation submitted for the purchase of a boat as a primary residence must show that you are the purchaser and must include the sales price, serial number or other identifying numbers, and a complete description of the on-board facilities and accommodations. The documentation must also include a letter from the marina or other location where the boat will be moored and a signed statement from you indicating that it will be your primary residence.

Your primary residence must be purchased (in whole or in part) by you or your spouse. If it is being purchased with a person other than your spouse, you must indicate your share of the purchase cost(s) on the Residential Loan Documentation Form.

You may obtain a TSP residential loan for the construction of a new residence. You may *not* obtain a residential loan to refinance or prepay an existing mortgage, and you may *not* obtain a residential loan for the renovation of, or an addition to, an existing residence or for a buyout. The purchase of land is *not* eligible for a residential loan unless combined with evidence that you are constructing an entire residence on the land. If this is the case, you must submit evidence, in the form of building permits, receipts, or other third-party documents, that a complete residence will be constructed.

Your documentation must:

- ❑ Be from a third party (i.e., someone who is selling the home to you or building the home for you — for example, a building contractor, a real estate firm, or a mortgage company).
- ❑ Show you or your spouse as the purchaser or builder.
- ❑ Show the purchase price or construction price.
- ❑ Show the full address of the residence.
- ❑ Be dated no more than 24 months before the date your loan application is received.

Examples of Acceptable Documentation:

- ❑ Copy of the complete purchase contract showing the sale price.
- ❑ Copy of the settlement sheet. Some costs shown on the settlement sheet may not be eligible for a TSP loan. Only the contract price and, in general, those costs that can be added to the cost basis of the residence for Federal income tax purposes are eligible for a TSP loan.
  - Examples of items that *can be added* to the cost basis include: title charges, such as settlement fees, attorney's fee, title search fee, title insurance fee, and notary's fee; government recording and transfer charges, such as deed and mortgage recording fees, and city, county, and state tax stamps; and items payable in connection with the loan, such as fees for appraisal, credit report, and inspection.
  - Examples of items that *cannot be added* to the cost basis for a TSP loan include: real estate taxes; loan origination fees, interest charges, and points (whether or not the points are included in the cost basis for Federal income tax purposes); utility expenses; and any costs that have been borne by the seller. A lease-to-buy option is not eligible unless you are exercising the option to buy.
- ❑ Copy of the construction contract(s) showing the building cost, if you are having your home built.
- ❑ Copy of building permits, receipts, assessments, or other documents that *clearly* demonstrate that an entire residence is being constructed if you are building your home yourself. In addition, you must provide evidence of costs in an amount at least equal to the loan amount.

Do not send original documents; they will not be returned to you.

APPENDIX 3. Worksheet for Estimating Your Maximum Loan Amount

Under the laws establishing the TSP, you can never borrow more than your own contributions to your TSP account and associated earnings. In addition, the Internal Revenue Code imposes further restrictions on the amounts that you can borrow. These laws require a three-part test to ensure that the principal amount of a loan is less than or equal to the *smallest* of the following amounts:

(1) your contributions and their earnings in your civilian **or** uniformed services account (that is, the account from which you are taking the loan), not including any outstanding loan balance (the Contributions and Earnings Test),

(2) 50 percent of your total vested account balance* (including any outstanding loan balance) or $10,000, whichever is greater, minus any outstanding loan balance (the IRS Vested Balance Test), or

(3) $50,000 minus your highest outstanding loan balance, if any, during the last 12 months (the IRS $50,000 Test).

If you have a civilian and a uniformed services account, the combined account balances and loan balances will be used to calculate Items 2 and 3.

Before you send in your Loan Application, you can access the Web site at www.tsp.gov., call the ThriftLine at (504) 255-8777, or use the worksheet on page 32 to estimate your maximum loan amount. The left-hand column of figures provides an example. Fill in your own set of figures in the right-hand column.

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* Your *vested* account balance is that amount of money in your TSP account which belongs to you and to which you are entitled if you leave service. You are *always* vested in your own contributions and their earnings. You are also always vested in the matching contributions your agency or service makes to your account, as well as in the earnings on those contributions.

Most FERS employees become vested in the Agency Automatic (1%) Contributions (and earnings on those contributions) after completing 3 years of Federal civilian service. FERS employees in congressional and certain noncareer positions become vested in their Agency Automatic (1%) Contributions (and earnings on those amounts) after completing 2 years of civilian service.

Worksheet for Estimating Maximum Loan Amount

	Example	Your own figures
Your account status when loan application is made		
1. Your contributions and earnings in your account	$10,000	
2. Your vested account balance plus your outstanding TSP loan balance, if any	$25,000	
3. Your highest outstanding TSP loan balance in the last 12 months, if any (from your quarterly statements, increased by loan disbursements made to you in the current quarter)	$4,000	
4. Your current outstanding TSP loan balance, if any (from your last quarterly statement, decreased by loan payments made by you in the current quarter)	$3,000	
Calculation to determine your maximum loan amount		
5. The Contributions and Earnings Test (Item 1)	**$10,000**	
6. The IRS Vested Balance Test		
(a) Enter your vested account balance	$25,000	
(b) Calculate ½ of line (a)	$12,500	
(c) Enter $10,000	$10,000	$10,000
(d) Enter larger of line (b) or line (c)	$12,500	
(e) Enter your current outstanding loan balance, if any	$3,000	
(f) Subtract line (e) from line (d)	**$9,500**	
7. The IRS $50,000 Test		
(a) Enter $50,000	$50,000	$50,000
(b) Enter the amount of your highest outstanding TSP loan balance in the last 12 months (Item 3)	$4,000	
(c) Subtract line (b) from line (a)	**$46,000**	
8. Maximum new loan amount you can borrow is the *smallest* of the amounts in the boxes on lines 5, 6(f), and 7(c)	**$9,500**	

APPENDIX 4. Estimating Your Loan Payments

Use this table and the worksheet below to estimate your loan payment each pay period, based on a 6.5% interest rate.

		Estimated payment each pay period per $1,000 of loan principal if your pay schedule is:			
		Weekly	**Biweekly**	**Semimonthly**	**Monthly**
	Number of Years to Pay Back Loan	*52 payments/ year*	*26 payments/ year*	*24 payments/ year*	*12 payments/ year*
	1	$19.87	$39.77	$43.09	$86.30
	2	$10.26	$20.53	$22.24	$44.55
	3	$7.06	$14.13	$15.31	$30.65
	4	$5.46	$10.93	$11.84	$23.71
Residential loans only	5	$4.51	$9.02	$9.77	$19.57
	6	$3.87	$7.75	$8.40	$16.81
	7	$3.42	$6.85	$7.42	$14.85
	8	$3.08	$6.17	$6.69	$13.39
	9	$2.82	$5.65	$6.12	$12.25
	10	$2.62	$5.24	$5.67	$11.35
	11	$2.45	$4.90	$5.31	$10.62
	12	$2.31	$4.62	$5.01	$10.02
	13	$2.19	$4.39	$4.75	$9.51
	14	$2.09	$4.19	$4.54	$9.08
	15	$2.01	$4.02	$4.35	$8.71

Example: You want to borrow $8,500 for a period of 4 years, and you are paid biweekly.

	Example	**Your own figures**
A. Amount you want to borrow	$8,500	$________
B. Divide (A) by 1,000	$8,500 ÷ 1,000 = 8.5	________
C. Number of years to repay loan	4	________
D. Your pay schedule	Biweekly	________
E. Payment each pay period per $1,000 of loan principal: Go across row for years entered on line (C) to pay schedule column entered on line (D)	$10.93	$________
F. Loan payment for $8,500 (B) times (E)	8.5 × $10.93 = $92.91	$________

Your actual TSP loan payments may be higher or lower, based on the loan interest rate in effect at the time your application for a loan is received.